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SUBJECT: FOOD PRICE DECREASES PULL IRAQI CONSUMER PRICE INDEX DOWN IN JULY

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1. (SBU) SUMMARY: Led by a decline in food prices, consumer prices fell in July by 2.6 percent. Nonetheless, inflation remains a concern. The increase in the consumer price index from July 2004 through July 2005 was 33 percent. A year ago after comparative stability in the first seven months of the year, consumer prices increased sharply August through January. The concern is whether that pattern might be repeated. END SUMMARY.

2. (SBU) The Ministry of Planning's consumer price index indicates that the general level of prices decreased 2.6 percent in July following an increase of 1.0 percent the previous month. The Iraq consumer price index increased 3.0 percent in the first six months of 2005 compared with 2.1 percent in the same period of 2004. Relative to twelve months earlier, the price level in July had increased 33 percent.

3. (SBU) The good news is that after an inflation spurt in January this year, the level of prices has fallen 10 percent, twice the decline that occurred in the same period a year earlier. Absent seasonal adjustment of the data, there is a concern whether the over 38 percent in prices that occurred August 2004 through January 2005 might be repeated during the months ahead.

4. (SBU) A table measuring percent changes in components of the COSIT consumer price index relative to the preceding month and a year earlier have been emailed to NEA/I/ECON Martin. The chart also records weights for each commodity class used in calculating the index. The Food weight is extraordinarily high. In July there was a substantial 12.8 percent decline in Food prices from June but a 16.9 percent increase relative to a year earlier. There were moderate increases in prices in most other categories. The official figures show a small increase in Fuel/Electricity price in July but a large decrease over twelve months, a figure that clearly does not count the burdens on Iraqis of long queues to buy refined oil products and extended electricity blackouts.

5. (SBU) COMMENT: After a January peak, monthly Iraq CPI inflation was dramatically reversed through July. Nonetheless, the CPI was up almost 33 percent from twelve months earlier. There is concern that slowing inflation thus far in 2005 is a regular seasonal pattern which raises the prospect that rapid increase in prices August through January a year earlier might be repeated this year.  
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